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PREFACE

Mounting Federal deficits present a great challenge to modern lawmakers and administrators at every level of government. Across the country, people are concerned about how Congressional efforts to reduce the deficit will affect their communities, their workplace, and their family lives. In an effort to foster informed discussion around these important budget questions, this report provides specific information on the effects of two alternative budget options on major Federal programs serving the elderly. The information contained herein, prepared by the staff of the Special Committee on Aging, is designed to follow an earlier report, "The Impact of Gramm-Rudman-Hollings on Programs Serving Older Americans: Fiscal Year 1986".

JOHN HEINZ,
Chairman.

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INTRODUCTION

In December 1985, Congress took a major step toward reducing mounting Federal deficits by passing the Balanced Budget and Emergency Deficit Control Act, Public Law 99–177, commonly referred to as "Gramm-Rudman-Hollings". The process initiated by this Act already has resulted in an across-the-board reduction of 4.3 percent of Federal domestic spending and 4.9 percent of defense spending under a March 1, 1986 order for the sequester of $11.7 billion. Unless additional deficit-reducing measures are taken by Congress, current projections show that sequestration will be required again in October to reduce Federal spending by as much as $50 billion to bring the fiscal 1987 deficit down to the Gramm-Rudman-Hollings target of $144 billion. The Congressional Budget Office estimates that under current budget assumptions, domestic programs would have to be reduced another 8.4 percent to achieve this target.

This report analyzes the two most diverse budget possibilities for fiscal 1987: The budget requested by the President; and the changes which will result if Congress fails to pass deficit-reducing legislation and a second sequestration becomes effective on October 15.

Gramm-Rudman-Hollings itself provides protection from sequestration for a large portion of Federal spending on the elderly. Most of the benefits paid by income security and means-tested programs—Social Security, Supplemental Security Income (SSI), Veterans' benefits, Railroad Retirement Tier I, Food Stamps, and Medicaid—are totally exempt from sequestration, although the costs of administering these programs are not. Other income security benefits, principally Civil Service and Military Retirement, are subject to sequestration only to the extent of the annual cost-of-living-adjustment (COLA). Cuts in health care programs (other than Medicaid)—Medicare, Veterans health care, and community health centers—would be limited to 2 percent after adjusting for inflation in fiscal years 1987 and beyond. All other programs serving the elderly, such as housing, nutrition, and social services, are subject to across-the-board reductions required to meet the deficit targets. Defense spending would bear one-half of the cuts under a sequestration order.

In contrast, the President's fiscal year 1987 budget request calls for a 3-percent increase in defense spending and reductions in nearly all domestic programs other than Social Security.

Any agreement by Congress in a 1987 budget is likely to be somewhere in between these two extremes, allowing a modest increase in defense, minimal cuts in domestic programs and some measure of revenue increases. Such a plan was developed in the Senate Budget Committee, and approved by the Senate by a vote of 70 to 25. The resolution (described in the Appendix) calls for increases in taxes and a 1 percent real increase in defense spending, making

more funds available to those domestic programs targeted for substantial cuts in the President's request. The House of Representatives has not yet reported out a budget resolution. The information given herein is designed to help evaluate such proposals in light of two polarized alternatives.

The information provided in this report is subject to change in light of future events, not the least of which is the possibility that the U.S. Supreme Court could find the Gramm-Rudman-Hollings Act, or portions thereof, unconstitutional in a case pending before it at this time.

Figures used in this report are based on current projections by the Congressional Budget Office. Interpretations of that data are solely the responsibility of the staff of the Special Committee on Aging.

Chapter 1.—Health

MEDICARE

The Program

The Medicare Program was enacted in 1965, in response to concerns that rising costs were pushing health care beyond the reach of many senior citizens. The program provides insurance for short-term acute illness. The Hospitalization component (Part A), which pays for inpatient hospital care, stays in skilled nursing facilities, and home health services, is financed principally through a special hospitalization insurance payroll deduction included as a part of the Social Security tax. The Supplemental Medical Insurance component (Part B), which pays for all other covered services, principally physician services, is financed through general revenues and premium payments from voluntary enrollees.

In 1987, an estimated 29 million elderly and 3 million disabled persons will be eligible for Medicare. Medicare pays nearly one-half of all personal health care expenditures for the elderly. Post-1986 sequestration outlays for the program will be $74.1 billion. If the program continues to receive funding at current services level, fiscal 1987 outlays will total $75.3 billion.

The President's Proposed Budget

The budget requested by the President provides $70.6 billion in net outlays for the Medicare Program in fiscal 1987. This total is $4.7 billion less that the current services estimate for that year, and is $3.5 billion less than post-sequestration outlays for fiscal 1986.

Beneficiary Costs

For fiscal 1987, the President's request raises $1.9 billion by increasing direct costs to beneficiaries:

—*Deductibles.*—Increase the Part B deductible from its current level of $75 to $100 for fiscal 1987 and index the deductible in subsequent years.

—*Premiums.*—Increase Part B premiums from their current level, covering 25 percent of program costs ($15.50 per month), at the rate of 2 percentage points per year, until they cover 35 percent of program costs by calendar year 1991 ($36.50 per month). This would result in total out-of-pocket increases to the average beneficiary of $472 over the course of 5 years. A similar administration proposal would increase premiums paid by nonbeneficiaries (such as States) to 50 percent of program costs in 1987.

—*Copayments.*—Begin requiring a copayment on each of the first 100 home health visits in a calendar year, an estimated $5.72

per visit in 1987, unless those services follow a hospital or nursing home stay. The President would also impose a Part B coinsurance and deductible for surgery done in ambulatory surgical centers.

—*Eligibility.*—Delay Medicare eligibility until the first day of the first full month in which a beneficiary is 65. Currently, coverage begins on the first day of the month in which the insured attains age 65.

Provider Reimbursement

The President also requests reducing expenditures by restraining Medicare payments to health care providers by $2.7 billion in fiscal year 1987:

—*Part A Providers.*—Restricting prospective payments to hospitals to an increase of only 2 percent.

—*Part B Providers.*—Reducing the growth in physician payments by changing the index used to calculate increases and modifying rates for certain procedures.

—*Capital Costs.*—Changing payments to hospitals for capital costs from cost reimbursement to a prospective payment system.

—*Medical Education.*—Eliminate payments for allied health professionals, nursing training programs and classroom expenses for residency programs. These cutbacks will have an adverse effect on poor elderly who obtain low-cost health care through training programs.

Other Proposals

The President's request contains additional proposals designed to reduce the deficit including:

—*ESRD.*—Reduce payments for the portion of Medicare's End Stage Renal Disease program which pays for medical costs involved in outpatient kidney dialysis. The proposed changes would reduce outlays by $90 million in fiscal 1987.

—*Catastrophic Insurance.*—In his State of the Union address on February 4, 1986, President Reagan alluded to administration plans for a new "catastrophic" health plan to provide Medicare reimbursement for long hospital and nursing home stays. This plan was not included as part of the fiscal 1987 budget request, and if implemented, some revenue source, such as premium rates, will have to be found to counter the effect of increased expenditures on the deficit.

Administrative Expenses

Only minor changes are requested for the Health Care Financing Administration's administrative budget, which includes productivity investments, audit and review functions, and claims processing.

Gramm-Rudman Sequestration

Beneficiary Costs

The sequestration process merely takes funding away from programs, it cannot change their structure. The Gramm-Rudman Act prohibits passing reductions on to beneficiaries, and therefore se-

questration would not increase premiums, deductibles, or copayments, nor would it change beneficiary eligibility. There would be increases in costs to beneficiaries, however, in those limited situations in which beneficiaries pay medical bills up front and are later reimbursed by Medicare.

Provider Reimbursement

Sequestration would reduce provider reimbursements by $1.5 billion in fiscal 1987. Under Gramm-Rudman, the Medicare Program is governed by a special rule limiting the amount of sequesterable funds to 2 percent (after costs have been adjusted for inflation) for fiscal 1987 and beyond. Providers bear the costs of these reductions, except in those incidents in which the beneficiary pays the cost of the services and is later reimbursed by Medicare, such as unassigned physicians' fees.

—*Part A Providers.*—HI benefits of $52.5 billion will be reduced by $1.0 billion.

—*Part B Providers.*—$25.7 billion SMI benefits, most of which are paid directly to providers, will be reduced by $0.5 billion.

Administrative Impact

The operating budget of the Health Care Financing Administration (HCFA), which administers the Medicare Program, is not covered under the special Gramm-Rudman rule for health programs, and is therefore subject to the full across-the-board cut. Under an 8.4 percent fiscal 1987 sequester, HCFA's $1.1 billion administrative budget would be cut by $96 million.

—*Claims Processing.*—In fiscal 1986, 4.3 percent sequestration which totaled $74.5 million is resulting in reduced implementation of productivity investments, cancellation of some audits and reviews, cancellation of some information publications, and increases in claims processing times. Sequestration increased Part A claims processing from 9 to 16 days, and Part B claims processing from 11 to 18 days. Assuming an additional 8.4 percent sequester in fiscal 1987, productivity investments would be severely limited and claims processing would be lengthened considerably.

—*Quality Assurance.*—Fiscal 1986 sequestration reduced the ability of Peer Review Organizations (PROs) to monitor health care providers. Fiscal 1987 sequestration could compound this problem and result in increased risks to Medicare patients.

COMPARISON

The President's request for the Medicaid Program would reduce the program's net outlays by $4.7 billion, whereas the program would lose only $2.6 billion under sequestration in fiscal 1987. The President requests increasing out-of-pocket costs to beneficiaries by $1.4 billion in fiscal 1987, while sequestration would not directly affect beneficiary costs. Presidential requests would increase the patient cost of each hospital stay by at least $25 and would increase Part B premiums to $18.70 per month.

Both sequestration and the Presidential budget would make reductions in provider reimbursements. Reductions in payments to

hospitals may result in staff cuts, reductions in services and quality of care provided to Medicare beneficiaries, and reduced service to indigent patients, as hospitals' ability to cost shift to Medicare becomes less and less possible.

Both budget possibilities would reduce funds available to administer the program, although the reduction due to sequestration would be much greater, resulting in diminished service to the public.

MEDICAID

The Program

Congress enacted the Federal Medicaid Program in 1965 to provide matching funds to States to finance health insurance for the poor, including supplemental insurance for the elderly poor to receive Medicare coverage. The Federal Government matches State administrative costs through the Health Care Financing Administration (HCFA), which also administers Medicare. Under current law, Medicaid grants match all qualifying State payments for all eligible beneficiaries under the program, and no limit is placed on Federal payments.

In fiscal 1985, Medicaid paid $22.6 billion in Federal benefits, and Congress appropriated $24.4 billion for this purpose in fiscal 1986. Under current law, estimated Federal Medicaid outlays of $25.9 billion in 1987 and an additional $21.3 billion provided by States are expected to finance care for 23.6 million poor Americans, well over 3 million of them elderly. Five percent of Federal Medicaid expenditures reimburse States for administrative expenses. Grants made to States for elderly recipients in fiscal 1986 will total $13 billion. Medicaid pays for approximately 13 percent of all health care costs of the elderly.

The President's Proposed Budget

Changes in Medicaid proposed by the President would result in 5 to 8 percent spending reductions in the program in each of the next 5 years.

Benefits

The President requests three changes in Federal payments to States for Medicaid benefits, to reduce outlays by $2.3 billion in fiscal 1987. The proposed changes would alter the very nature of the Medicaid program, turning a program which paid the medical bills of all those who qualified for aid to one which is essentially a block grant program to States, who will be able to provide care only to the extent of available funds:

—*Benefit Cap.*—Setting a ceiling on Federal payments of $23.6 billion in fiscal 1987 and indexed to inflation in subsequent years. Federal payments to States would continue to match State expenditures but only up to each State's funding limit for that year.

—*Hardship Fund.*—$300 million "hardship" fund would be established to supplement States with costs over their limit in fiscal 1987.

—*Program Changes.*—To help States stay within cost limits, the President proposes changes designed to give States flexibility in design and operation of programs, which may include changes in eligibility guidelines.

Administration

The President's request projects savings of $0.3 billion in fiscal 1987 through changing the way the Federal Government reimburses States for the administrative cost of the program:

—*Matching Rates.*—Reduce matching rates for certain State administrative expenditures as an incentive for States with high administrative costs to achieve efficiencies.

Other Presidential requests would change the way in which States administer Medicaid, but would not result in increased savings because of the benefit cap to States:

—*Increased Reviews.*—Require States to operate mandatory second surgical opinion programs and inpatient hospital preadmission review programs.

—*Drug Costs.*—Develop regulations which change the way States are reimbursed for prescription drugs, to encourage States to require physicians to prescribe generic drugs whenever available.

—*Third-Party Insurers.*—Require States to initiate a variety of measures designed to enforce contributions from third-party insurers of Medicaid patients. An enforcement measure less drastic than this plan recently passed Congress as part of the Consolidated Omnibus Budget Reconciliation Act of 1985. No further deficit reduction would be achieved by implementing the Presidential request.

GRAMM-RUDMAN SEQUESTRATION

Benefits

Gramm-Rudman exempts grants to States for Medicaid from sequestration. As a result, if sequestration takes effect in October it would not reduce the projected $25.9 billion in Medicaid benefits.

Administration

Gramm-Rudman does not exempt the Federal administrative costs of the program from sequestration. If an 8.4 percent across-the-board reduction goes into effect, it will reduce the HCFA's total administrative budget for the Medicaid Program by $109 million in fiscal 1987.

Sequestration rules do not allow HCFA to change the way in which States are reimbursed for Medicaid administrative expenses, as the President's proposals would do. Under the 4.3 percent sequestration of fiscal 1986 spending, HCFA is losing $74.5 million from the funds available to administer both the Medicare and Medicaid Programs. In response, HCFA is reducing audits and reviews of State Medicaid agencies, cancelling development of caseload models designed to improve Medicaid actuarial estimates, and reducing improvements in automated data processing meant to inform the public about the Medicaid Program. An 8.4 percent se-

questration in 1987 would take an additional $96 million from HCFA's total administrative budget.

Comparison

The President requests changes in the structure of the Medicaid Program which would change it from an entitlement program to one in the nature of a block grant scheme. His budget would cut the Medicaid budget by $2.6 billion in fiscal 1987, whereas sequestration would reduce the program by less than $1 billion. Under both the President's request and sequestration, benefit reimbursements to health care providers would be reduced. Under the President's budget direct services to beneficiaries are not to be reduced, but States are granted more flexibility to set eligibility guidelines. This discretion, implemented to help States meet reimbursement caps, could result in previously eligible persons losing coverage.

Under either sequestration or the President's request, reimbursements for administrative expenses would be reduced. These reductions could result in a drop in service to the public.

VETERANS HEALTH

The Program

The Veterans Administration (VA) provides a wide range of services to men and women who have given past service in the Armed Forces. The VA provides health care services in 172 VA hospitals, 16 domiciliaries, 116 nursing homes and 228 outpatient clinics. It also contracts with private and State facilities to provide veterans with hospitalization and nursing home care.

Federal law entitles all veterans with service-connected disabilities to VA medical care. Those with non-service-connected conditions receive care only if they are unable to defray the cost of care elsewhere or are age 65 or older. Over 38 percent of all veterans eligible for medical care are 65 and older, and senior citizens comprise more than 32 percent of all VA patients. The VA projects the number of nursing home patients to rise, as the veteran population grows older much more rapidly than the rest of the Nation.

The President's Proposed Budget

The President's 1987 budget request calls for a 4 percent decrease in funding for VA hospital and medical care programs, which would result in outlays $0.6 billion below the 1986 post-sequester level.

Beneficiary Costs

The President's request contains two provisions which could increase out-of-pocket costs for some veterans:

—*Eligibility.*—Institute a stricter means-test for veterans with non-service-connected disabilities. A less severe means-tested copayment requirement recently passed Congress as part of the Consolidated Omnibus Budget Reconciliation Act of 1985.

—*Beneficiary Travel.*—Eliminate the payment of beneficiary travel costs to VA medical centers.

The VA projects means-testing and other factors to reduce the number of hospital patients, their expected lengths of stay, and the number of outpatients served.

Administration

Other Presidential requests involve administrative changes:

—*Facilities.*—Elimination of future construction of VA nursing homes and restraints on new hospital construction.

—*Staffing.*—Decrease staffing levels in many areas. The VA would implement this by decreasing staffing levels in hospitals (loss of 6,240 Full Time Employment Equivalents (FTEE's)) and outpatient service centers (loss of 1,971 FTEE's). Nursing home and domiciliary staff would rise slightly (increase of 628 FTEE's).

Funding

Included in the Presidential request is a measure, recently passed by Congress as part of the Consolidated Omnibus Budget Reconciliation Act of 1985, which will add an estimated $0.1 billion to the Federal budget in fiscal 1987:

—*Reimbursements.*—Improve collections of reimbursement for health care provided to non-service-connected disabled veterans with private health care insurance coverage.

Gramm-Rudman Sequestration

Beneficiary Costs

The Gramm-Rudman Act treats the Veterans health care program in a special way, similar to the Medicare Program. Sequestration may only reduce funds used to provide direct medical services by 1 percent in fiscal year 1986, and by 2 percent in fiscal 1987 and later years.

Under current services levels, veterans medical benefits will total nearly $9.4 billion in fiscal 1987. A 2 percent reduction in this level would result in a total cut of $187 million. These reductions would not result in direct added expenses to VA patients, but could cause a reduction in the number of non-service-connected disabled veterans served. These veterans have a right to receive medical care "only to the extent that resources are available to do so." Recent reports of veterans being turned away at outpatient facilities have been attributed to high concentrations of veterans in particular areas of the country rather than cutbacks from 1986 sequestration.

Administration

The special health services rule of Gramm-Rudman does not protect VA administrative costs from the across-the-board cuts of sequestration. Assuming a uniform domestic spending reduction of 8.4 percent, the funds sequestered from the VA's medical administration and miscellaneous operating expenses budget would total $4.2 million in fiscal 1987.

For fiscal 1986, the VA implemented its 4.3 percent sequestration and other cutbacks by reducing average employment 148 FTEE's to 664 FTEE's. An 8.4 percent cut in the 1987 baseline would result in

further staffing reductions and limit the ability of the agency to adequately serve an aging veteran population.

COMPARISON

For fiscal 1987, the President requests cuts to the VA's medical budget that are twice as large as cuts which would result from Gramm-Rudman sequestration. A portion of the deficit reductions requested by the President would come from cuts in staffing and facilities, however some would be obtained through increased costs to beneficiaries. In contrast, sequestration would take 2 percent of funds VA medical services programs without increasing beneficiary costs. There is a danger that reductions in funds may deny medical benefits to some non-service-connected veterans, who are entitled to care only to the extent resources are available.

NATIONAL INSTITUTES OF HEALTH

THE PROGRAMS

The National Institutes of Health (NIH), the principal biomedical research agency of the Federal Government, conducts and supports research aimed at improving the health of all Americans. Five of the 16 Institutes study areas of particular importance to America's elderly population.

A. NATIONAL INSTITUTE ON AGING

The National Institute on Aging (NIA) conducts biomedical, social, and behavioral research and training related to the aging process and diseases and other special problems and needs of the aged. NIA's principal areas of study include research into Alzheimer disease and other dementias of aging, osteoporosis, and problems of incontinence and mobility. All NIA research benefits the Nation's senior citizens.

B. NATIONAL CANCER INSTITUTE

The National Cancer Institute (NCI) conducts and sponsors research relating to the cause, prevention, diagnosis, and treatment of cancer. NCI operates an international data bank for cancer research information and disseminates valuable information to both researchers and the general public. NCI's work benefits senior citizens—of all new cancer cases reported, over half involve senior victims, and over 60 percent of all persons who die of cancer each year are elderly.

C. NATIONAL HEART, LUNG AND BLOOD INSTITUTE

The National Heart, Lung and Blood Institute (NHL&BI) carries out a number of programs concerned with diseases of the heart, blood vessels, blood, and lungs, and with the management of blood resources. NHL&BI studies three of the top ten chronic conditions afflicting the elderly—hypertension, heart conditions and arteriosclerosis. One-fourth of all senior citizens suffer from a chronic heart condition, nearly 40 percent suffer from hypertension, and 8 percent from arteriosclerosis.

D. NATIONAL INSTITUTE OF ARTHRITIS, DIABETES, AND DIGESTIVE AND KIDNEY DISEASES

The National Institute of Arthritis, Diabetes, and Digestive and Kidney Diseases (NIADDK) conducts and supports research in two particular areas of great importance to senior citizens. Arthritis and diabetes are common ailments among the elderly. These diseases, although not often fatal, can cause great hardships for many senior citizens in the form of increased medical bills and loss of mobility and productivity. Almost half of all persons over the age of 65 suffer from some degree of chronic arthritis. Nearly 10 percent of senior citizens are known to be diabetic.

In fiscal 1987, NIH reorganization will result in a split of NIADDK into two separate entities, the National Institute of Diabetes and Digestive and Kidney Disease (NIDDK) and the National Institute of Arthritis and Musculoskeletal and Skin Diseases (NIAMSD).

The President's Proposed Budget

Fiscal 1986 Recisions

The President's fiscal 1987 budget includes a request for recision of 1986 post-sequester funds from NIH. Of the $63 million recision request, $54 million would reduce the number of new and competing grants from 6,000 to 5,500. Such a reduction facilitates the President's goal of limiting the total number of grants funded in 1987 to 18,000. The President would reduce new and competing research grants by:

—*NIA.*—Rescind $2.7 million, cancelling 24 of 201 grants.

—*NCI.*—Rescind $6.8 million, cancelling 30 of 1,022 cause and prevention grants, 21 of 758 treatment grants, and 30 of 1,055 cancer biology grants.

—*NHL&BI.*—Rescind $11.5 million, reducing the number of grants in the heart and vascular diseases program by 44 to 1,665; the number of grants in the lung diseases program by 13 to 514; and, the number of grants in the blood diseases and resources programs by 12 to 460.

—*NIADDK.*—Rescind nearly $8 billion, cancelling 26 of 199 grants in the area of arthritis, musculoskeletal and skin diseases, 37 of 1,044 grants in the area of diabetes, endocrinology and metabolism, 17 of 459 grants in the area of digestive diseases and nutrition, and 19 of 541 grants in the area of kidney disease, urology and hematology.

—*Other Institutes.*—Rescind comparable amounts from the other 12 Institutes.

The President would rescind the remaining $9 million from programs to develop biomedical research in small and minority schools.

Fiscal 1987 Proposals

The President's budget request provides NIH $5.0 billion for total outlays in fiscal 1987, $0.4 billion below the current services level. The budget calls for a total of 17,889 research grants 760 fewer than the total scheduled for funding in 1986 (before any recision

would go into effect). The plan would also reduce the number of research centers supported from 534 to 523.

Some of the ways in which these cuts will be implemented:

—*NIA.*—The NIA would receive $4 million less budget authority than the $149 million available in fiscal 1986, after the March 1 sequestration order. At this level, 14 fewer grants would be funded.

—*NCI.*—Make 105 fewer grants available than in fiscal 1986 after sequestration.

—*NHL&BI.*—Provide 61 fewer research grants than were available after 1986 sequestration.

—*NIDDK.*—Fund research programs $8.7 million below 1986 post-sequester levels.

—*NIAMSD.*—Reduce funding for research grants in this area by $3.5 million.

Gramm-Rudman Sequestration

Gramm-Rudman subjects all NIH programs to the across-the-board percentage reductions when sequestration takes effect. If a percentage reduction of 8.4 percent is applied to the NIH in October, its programs will lose a total of $443 million for fiscal 1987. Each Institute would lose that percentage of funds. When 4.3 percent of funds were sequestered in March, the NIH responded by cancelling some of the grants that would have been funded and reducing the amounts awarded in others. An additional cut of 8.4 percent in fiscal 1987 would curtail the ability of the NIH to continue to provide current levels of medical research, both in quality and quantity.

Comparison

Reductions requested by the President from both 1986 and 1987 funding for the NIH total slightly more than the amount NIH would lose under an 8.4 percent sequester. The President's 1987 budget request includes plans to recind funds already allocated to the NIH by Congress for 1986. These recisions would help set the stage for the proposed cap on the number of research grants that would be funded in the years 1987 and beyond. These grant reductions would occur throughout each of the Institutes. Fiscal 1987 sequestration would not reach back to 1986 funds, but would apply equally to each Institute. Under either scenario, cutbacks will hamper the efforts of the NIH to support important medical research in fields of direct and indirect benefit to senior citizens.

FOOD AND DRUG ADMINISTRATION

The Program

The Food and Drug Administration (FDA) administers and enforces laws concerning dangerous, misbranded, and adulterated foods, drugs, human biologics, medical devices, cosmetics, and man-made sources of radiation. In 1985, FDA program outlays totaled $397 million. The March 1 sequester reduced the $417 million fiscal 1986 appropriations to $402. At current services level, 1987 outlays will total $407 million.

The elderly are the Nation's largest consumers of drugs, and often need special "diabetic" or "low sodium" foods. The elderly depend on the actions of the FDA's regulatory and enforcement authority to remain healthy and safe. In recent years, the FDA has been giving increasing attention to programs developed for the elderly.

The President's Proposed Budget

The President's budget request would restore the major programs of the FDA to 1985 levels, after a slight reduction in growth due to 1986 sequestration. The Administration has asked for $419 million in outlay funds for fiscal 1987, $2 million more than was appropriated in fiscal 1986. An increasing percent of the agency's funds will be concentrated in the area of Acquired Immune Deficiency Syndrome (AIDS) research, and programs designed to benefit the elderly can expect to receive funding at or below 1986 post-sequester levels.

Gramm-Rudman Sequestration

Gramm-Rudman subjects the FDA's budget to across-the-board cuts when failure to meet deficit targets triggers sequestration. Assuming a domestic program percentage reduction of 8.4 percent under fiscal year 1987 sequestration, the FDA would lose $34 million. Such cuts could seriously impair the ability of the FDA to protect the health and safety of all Americans, particularly senior citizens.

Comparison

The Reagan request would increase funding for the FDA while increasing the agency's responsibilities. The new responsibilities would involve a reorganization of the FDA's priorities, a process in which elderly programs could be cut back. Alternatively, Gramm-Rudman sequestration cut an equal amount from all FDA programs, including those targeted to serving the elderly, without adding or eliminating any.

Chapter 2.—Income Security

SOCIAL SECURITY

The Program

Established in 1935, the Social Security Program provides income for eligible workers and their families when the worker retires, becomes severely disabled, or dies. Federal Insurance Contributions Act (FICA) payroll deductions fund benefits. The program consists of Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). The number of quarters a worker has contributed to the program determines eligibility.

By far the largest Federal entitlement program, Social Security accounts for approximately 15 percent of annual Federal spending. The program encompasses 55 percent of all Federal spending on the elderly. As of January 1986, 37.2 million persons were receiving Social Security benefits, and of those, 72 percent, or 26.7 million were senior citizens. The average monthly benefit totalled $429. For fiscal 1986, program outlays will reach $200 billion.

The President's Proposed Budget

Benefits

Gramm-Rudman takes the social security trust funds "off the table" for budget proposals. This means that the President may not consider changes in the funds as part of his budget request, and accordingly, no changes in benefits have been proposed.

Administration

The President's budget requests staff cuts and other reductions in the Social Security Administration's administrative budget:

—*OASI Personnel.*—Reduce Full Time Employment Equivalents (FTEE's) by 2,589 from the 1986 pre-sequester level of 32,854.

—*DI Personnel.*—Reduce FTEE's 1,123 from the 1986 pre-sequester level of 21,871.

Although the Administration proposes these significant staff reductions, total funds requested for the administrative costs of social security would restore $73 million of the base reductions that resulted from 1986 sequestration. These increased funds would go toward extensive implementation of automation systems, and the President predicts no decrease in service to the public. In the past, SSA has experienced some delays implementing automated data systems and it is unclear at this time whether the President's requests would result in a drop in service. Plans to fully implement continuing eligibility reviews for disability benefits recipients may put additional strain on administrative resources.

Funding

The Administration does request one change in the Social Security system, designed to increase revenues (and therefore reduce the deficit by increasing the trust funds). The proposal requires State and local governments to accelerate deposit of FICA payroll tax contributions, putting them on the same schedule as private employers. This requirement would increase Federal revenues by $1.6 billion over the course of fiscal years 1987 through 1989.

Gramm-Rudman Sequestration

Benefits

The Gramm-Rudman Act gives preferential treatment to Social Security benefits, exempting all benefit payments, including COLA's, from sequestration. If the sequestration process is triggered in October of this year, it will not decrease benefits, nor cancel the anticipated 3.7 percent COLA increase due with checks issued in January 1987.

Administration

Although Gramm-Rudman exempts Social Security benefits from sequestration, the Act does not protect the operating expenses of SSA from automatic cuts. At current services levels, the fiscal 1987 expenditures on the OASI administration budget will total $17.7 million, and the DI administrative expenditures will total $7.2 million. Assuming a domestic program reduction of 8.4 percent, a total of $2.1 million would be cut from SSA's budget under fiscal 1987 sequestration.

SSA implemented 4.3 percent sequestration in March by reducing OASI and DI FTEE's by 3.9 percent. An 8.4 percent reduction in October for fiscal 1987 could result in significant staff reductions and a drop in service to the public. Sequestration also demands equal cuts from all administrative items, and would take 8.4 percent of funds earmarked for automated data system implementation, which would further delay this cost-saving program.

Funding

The sequestration process does not provide for any changes in the way in which the Social Security program is funded, and therefore, there would be no change in the way in which State and local governments forward FICA payroll taxes to the Federal Government.

Comparison

Under either the President's budget request or sequestration, SSA's service to beneficiaries and the general public will be limited somewhat. Sequestration would reduce each portion of SSA's budget equally and would take funds from SSA's automated data system implementation, a program which will greatly reduce administrative costs in future years. In the past, SSA has experienced delays implementing this system and it is uncertain how service would be affected by fiscal 1987 funding for the program. The President has requested full funding for the automated systems

with reductions in current staffing levels. The preferable reduction course will depend on the extent to which automation has been implemented by October.

Social Security benefits themselves will be identical under either sequestration or the President's budget request in fiscal 1987, with beneficiaries receiving full benefits, including an anticipated 3.7 percent COLA.

SUPPLEMENTAL SECURITY INCOME

The Program

The Supplemental Security Income Program (SSI), enacted in 1972, provides income to the Nation's elderly, blind and disabled, and is financed through general revenues. The Social Security Administration (SSA) administers the program. Unlike Social Security, SSI recipients need not qualify for benefits with work quarters or payroll deductions. To qualify, beneficiaries must meet a means-test based on income levels and asset availability.

In many cases, SSI benefits supplement income from other sources, including Social Security benefits. Monthly checks are issued to bring recipients' income to specified levels. For 1987, an anticipated 3.7 percent COLA increase will raise maximum monthly benefits to $348 for a single person and $522 for a couple. Under these levels, Federal benefit payments will total $9.6 billion in fiscal 1987. Approximately 40 percent of all SSI recipients receive federally administered State supplements to their Federal benefits.

More than 30 percent of all SSI recipients are age 65 or older. In fiscal 1987, the average monthly SSI check received by elderly beneficiaries will be $144, while the average for blind and disabled beneficiaries ($238) will be significantly higher. The fact that many elderly SSI recipients qualify for some measure of Social Security benefits may account for this discrepancy.

The President's Proposed Budget

Benefits

The President's budget request assumes reduction of $34 million in SSI benefits for fiscal 1987. No specific legislative proposals were provided as to how this would be accomplished, only an indication that savings would result from "improvements in the coordination among various Federal cash benefit programs." Reductions in benefits might be achieved through restrictions on eligibility, reductions in monthly benefits, or a combination of both.

Administration

The President's budget request calls for:

—*Efficiencies.*—Improvements in SSA's automated data processing system are expected. These could reduce labor and supply costs considerably in the future.

The President, taking these efficiencies into account, has requested an $8 million decrease in SSA funds to administer the program.

Gramm-Rudman Sequestration

Benefits

The Gramm-Rudman Act exempts SSI benefits from automatic cuts. This means that the $9.6 billion paid to recipients in fiscal year 1987, which includes an anticipated 3.7 percent COLA increase, would not be reduced by sequestration.

Administration

Administrative costs of the SSI program are subject to the full percentage reduction under Gramm-Rudman. If Congress fails to pass fiscal 1987 budget measures, a reduction of 8.4 percent across all unprotected programs would result in a cut of $81 million to the portion of the SSA budget used to administer the SSI program.

Comparison

President Reagan requests small unspecified cuts in SSI benefits for fiscal 1987, which could reduce slightly the numbers of people qualifying for benefits or in lower monthly benefits for recipients, or both. In contrast, benefits would not be reduced by the automatic sequestration of Gramm-Rudman. Both the President's request and sequestration would reduce administrative funding for the program, probably resulting in a drop in services to the public.

BLACK LUNG

The Programs

Disabled coal miners and their dependents and survivors receive income maintenance through two separate programs. Black Lung Part B provides benefits to those who filed claims before July of 1973. Funds are appropriated from general revenues and administered by the Social Security Administration (SSA). Currently, 215,000 annuitants and survivors, nearly all of whom are elderly, benefit from the program. The median age of beneficiaries is 76. Single beneficiaries receive $328 per month, with increases if dependents are involved. Benefits appropriated for 1986 total $997 million, a sum which includes $270 million appropriated in fiscal 1985 as an advance for the first quarter of fiscal 1986. The administrative budget set aside for SSA to administer the program in 1986 is $6.52 million. If benefits in 1987 meet current services levels, $967 million will be paid out to Part B recipients.

Black Lung Part C, provides income and medical benefits to disabled coal miners and their dependents or survivors who filed claims after July of 1973, or who had failed to qualify earlier under Part B. Part C is funded through taxes on coal producers and loans from the general revenues, and administered by the Department of Labor. Administrative costs of the program will total $44 million for fiscal year 1986. Congress appropriated nearly $635 million for 1986 benefits, with approximately one-eighth of those funds going to medical benefits and the rest in monthly entitlement checks. Monthly benefits of $328 were paid to single claimants in 1985, with higher benefits paid to claimants with dependents. Over 90 percent of beneficiaries are age 60 or older. At current services

levels, in fiscal 1987, $496 million will be paid out in benefit checks and $99 million will be used to provide Part C medical benefits.

Benefits in both programs are pegged to Federal salary levels, and will be increased in 1987 if anticipated Federal raises take effect.

The President's Proposed Budget

The President's budget request changes designed to reduce operating deficits in the Black Lung programs.

Benefits

The President requests slight deficit reduction at slight costs to beneficiaries:

—*Increases.*—Increase both Part B and C benefits at a lower rate than current services levels, because of a Presidential proposal to limit Federal salary increases to 3 percent.

—*Rounding.*—For Part C benefit checks, implement a system similar to that used in issuing Social Security checks to round monthly benefit checks down to the nearest dollar. Beneficiaries would feel only small losses under this system.

Administration

No changes.

Funding

The Administration's budget calls for an increase in the fee on coal production used to finance Part C benefits to eliminate the $3.2 billion program deficit. A provision similar to this proposal recently passed Congress as part of the Consolidated Omnibus Budget Reconciliation Act of 1985.

Gramm-Rudman Sequestration

Benefits

Black Lung benefits, both Parts B and C, are set at 37.5 percent of the Federal salary level GS–2, and are indexed to raises on Federal salaries. The Gramm-Rudman freeze on Federal salaries in fiscal 1986 thus froze these benefits as well. An October sequestration would keep these benefits frozen.

Under Gramm-Rudman, the Part C medical payments budget is subject to across-the-board sequestration. At a current services level, medical benefits will total $99 million in fiscal 1987. An 8.4 percent reduction in this amount would reduce the program's budget by over $8 million.

Administration

A sequestration order in October would trim the Social Security Administration's budgeted allotment of $6 million to administer the Part B program by $504,000. Fiscal 1987 sequestration of 8.4 percent would reduce the $49 million budget given to the DOL to administer Part C by over $4 million. These administrative cuts will strain previously sequestered resources, and could result in drop in services to beneficiaries.

Funding

Sequestration does not allow for changes in program funding, and therefore, no increases in coal producer fees would be a part of a Gramm-Rudman sequestration order in October.

Comparison

Black Lung beneficiaries would fare better under the President's budget request than under Gramm-Rudman sequestration. Although the President would provide lower benefit increases than would be made under current services levels, sequestration would cancel any increases. Additionally, sequestration would cut a portion of the funds used to administer the benefits.

CIVIL SERVICE RETIREMENT

The Program

The Federal Government's civil service retirement system covers 2.7 million current employees. Earnings history and years of service to the Government determine benefits, which fill the role of both a private pension and Social Security benefits. Currently, retirees with 30 years of service may collect full benefits at age 55; other retirees must wait until age 60. In 1986, $24 billion will be paid to 2 million retirees and survivors. Approximately 65 percent of these beneficiaries are senior citizens. A combination of payroll deductions and general revenues funds the Civil Service retirement system.

The President's Proposed Budget

Benefits

The President has proposed changes to Civil Service Retirement benefits as part of his 1987 budget request, which would reduce Federal outlays by $0.6 billion in fiscal 1987 and considerably more in later years:

—*COLA's.*—Cancel the fiscal 1987 COLA of 3.7 percent, anticipated with checks issued in January 1987. Later Civil Service Retirement COLA's would be limited to 2 percentage points below the applicable Consumer Price Index mandated COLA level.

—*Early Retirement.*—Reduce annuities of early retirees by deducting 2 percent for each year under age 62 the employee is at the time of retirement. This change would be phased in gradually and would not affect any employee now 55 years of age or older.

—*Benefit Computation.*—Change the base on which benefits are computed from an average of the 3 highest years' salaries to an average of the 5 highest.

Administration

No changes proposed.

Funding

The President's requested funding changes would increase revenues by nearly $1.0 billion in fiscal 1987, increasing the trust fund balances, but would have no effect on retirement outlays.

—*Payroll Contributions.*—Increase government employer and employee contributions from 7 percent to 9 percent (an increase that would offset most of the 3 percent raise scheduled to go into effect for Federal employees.)

—*Governmental Employers.*—Require the Postal Service and the District of Columbia to contribute payroll taxes to help offset program costs.

GRAMM-RUDMAN SEQUESTRATION

Benefits

Gramm-Rudman subjects most of the Federal employees retirement programs to COLA-only cuts under sequestration. By a special provision of the Act, the money sequestered from these COLA's is to be divided equally and applied to both the defense and non-defense deficit reductions. The March 1st sequestration cancelled Civil Service retirees' 3.1 percent COLA for 1986. If the sequestration process occurs again in October, retirees will lose their anticipated 1987 COLA as well. The Federal Government would save $0.6 billion in fiscal 1987 because of this COLA cancellation.

No changes such as those proposed by the President in early retirement provisions or benefit computation would occur under sequestration.

Administration

Gramm-Rudman subjects the Office of Personnel Management (OPM), which administers the civil service retirement system, to the across-the-board percentage reductions when sequestration is triggered. If reduced by 8.4 percent in fiscal 1987, this $54 million administrative budget would be cut by $4.5 million.

Funding

Sequestration under the Gramm-Rudman Act does not provide for any changes in the way in which programs are funded. If the process is triggered in October, it would not trigger any changes in payroll contributions such as those proposed by the President.

COMPARISON

President Reagan's 1987 budget request would permanently lower civil service retirement benefits. The plan would cancel anticipated COLA's for 1987 and provide future increases at less than inflationary rates. Additionally, changes would be made in benefit computation and early retirement qualification which would reduce benefits. While sequestration would also cancel Federal retirees anticipated COLA's for 1987, Gramm-Rudman does not change the nature of the COLA and full COLA's would be paid in any year in which Congress met the specified deficit targets. Sequestration would not result in any changes in benefit computation or early retirement qualification.

Sequestration would reduce the amounts available to OPM to administer the program, which could reduce the operation's effectiveness. The President's request would not reduce administrative funding.

The President also proposes increasing funding for the program by raising payroll deductions of current employees and requiring contributions from the Postal Service and the District of Columbia.

MILITARY RETIREMENT

The Program

Approximately 1.5 million retired officers, enlisted personnel, and their beneficiaries will receive $18.5 billion in annuity payments in 1987. Benefits are based on pay history and indexed to the Consumer Price Index. Military personnel also make contributions to and are eligible for social security. Only about 20 percent of participants are elderly because military personnel qualify for retirement after 20 years of service, and nearly all retire before age 50. The average annuitant receives a monthly benefit based on family size and rank held at retirement. Most supplement their military retirement with employment after their service. Military retirees anticipate receiving a 3.7 percent COLA beginning in January 1987. A scheduled 1986 COLA was cancelled by sequestration in March.

The President's Proposed Budget

The President proposes a reduction of benefits which will result in a decrease of $0.5 billion in Federal outlays in fiscal 1987:

—*COLA's.*—Cancel the anticipated 1987 COLA increase of 3.7 percent scheduled to be paid to military retirees and survivors in January 1987. The budget does not propose further military COLA reductions in later years, as were proposed for the Civil Service Retirement system.

Gramm-Rudman Sequestration

Sequestration would reduce military retirement outlays by $0.5 billion in fiscal 1987:

—*COLA's.*—Like civil service retirement COLA's, anticipated retirement COLA's would be sequestered, divided equally and applied to both the defense and non-defense deficit reduction.

Comparison

Unlike his proposed treatment of civil service retirees, the President's request for military retirement benefits is limited to cancellation of 1987 COLA's, a course of action identical to what would take place under October sequestration.

VETERANS: COMPENSATION AND PENSIONS

The Programs

Compensation

Over 2.2 million veterans receive compensation for disabilities incurred in or aggravated during active military service. Death and Indemnity Compensation (DIC) is paid to 0.3 million survivors of service persons or veterans whose death occurred while on active duty or as a result of service-connected disabilities. Benefits are keyed to level of disability, and are increased with COLA's comparable to Social Security COLA's.

The number of compensation cases is expected to decline by 0.8 percent in 1987, as fewer beneficiaries join the rolls and more leave because of death or recovery. The Veterans Administration will pay an estimated $10.2 billion in compensation to over 2.5 million veterans and survivors this year. Approximately 585,000 veterans over the age of 65 are disabled to some extent.

Pensions

The Veterans Administration will pay out an estimated $3.8 billion to almost 1.4 million veterans and survivors in the form of pension benefits. Veterans receive pension benefits on the basis of service, disability, and level of income. Pensioners receive annual COLA's, comparable to Social Security COLA's. The VA expects pension caseloads to decline, as more veterans leave the rolls due to death or ineligibility than become eligible.

The President's Proposed Budget

Benefits

The President's budget request calls for payment of full Veterans compensation and pension benefits, including anticipated 3.7 percent COLA's, in 1987.

Administration

No changes.

Gramm-Rudman Sequestration

Benefits

The Gramm-Rudman Act exempts both Veterans compensation and pensions from sequestration. If the process is triggered in October, benefits in both programs should be increased by an anticipated 3.7 percent to account for inflation, beginning with checks issued in January.

Administration

Gramm-Rudman does not protect the administrative expenses of the Veterans Administration from sequestration. Under the 3.4 percent 1986 sequestration, the VA's total general operating expenses were reduced by $29 million. An additional cut of 8.4 percent in fiscal 1987 could seriously impair the VA's ability to administer compensation, pension, and other programs to veterans.

Comparison

Both the President's budget request and the sequestration process would pay full benefits, including anticipated 3.7 percent COLA's to recipients of veterans compensation and pensions in fiscal 1987. However, sequestration would cut an estimated 8.4 percent from funds to administer these programs, resulting in a drop in the VA's ability to effectively administer the programs.

RAILROAD RETIREMENT

The Program

The Railroad Retirement program provides retirement income for former railroad employees and their families when the employee retires, becomes disabled, or dies. As of the end of fiscal 1985, there were 954,000 monthly railroad retirement beneficiaries, of whom 82 percent were age 65 or older. The Railroad Retirement Board issues benefit checks totaling nearly $6 billion each year.

The benefit is divided into two parts or tiers plus a supplemental annuity to workers with long railroad service and a dual, or windfall, benefit for workers who became vested for Social Security benefits prior to 1975. Tier I is roughly equivalent to Social Security benefits. In fiscal 1987, a retiree's Tier I benefit will total $526 per month, which includes an anticipated 3.7 percent COLA. Tier II is equivalent to a private pension. In fiscal 1987, a retiree's Tier II benefit will total $201 per month, which includes an anticipated 1.2 percent COLA. Tier I and Tier II benefits for spouses and for aged and disabled widows and other survivors are considerably less than these basic benefits.

The supplemental annuity is given to workers with the equivalent of 25 or more years of railroad service. If the annuitant has 30 or more years of service, this supplemental annuity is payable upon retirement. In other cases, it is payable at age 65. Currently, about 20 percent of railroad retirees receive a supplemental annuity. However, this benefit is being phased out as a result of recently enacted changes.

Windfall benefits to retirees will total $48 per month in fiscal 1987. These benefits contain no provisions for COLA's.

Benefits are financed through a combination of employee and employer payments to a trust fund, with the exception of dual vested or so-called windfall benefits, which are paid for through general revenues from a special account. The Railroad Retirement Board projects a 20 percent drop in rail employment by 1991, with only an 8 percent drop in Railroad Retirement beneficiaries.

The President's Proposed Budget

Benefits

The President's budget request proposes several changes for Railroad Retirement benefits designed to reduce the deficit by $0.1 billion for fiscal 1987:

—*Tax Tier I.*—Divide Tier I benefits into two parts—that which is identical to Social Security benefits, and that which exceeds Social Security. The second part would be subject to income

taxation as though it were a private pension, and allowed only the lower rail pension COLA adjustment.

—*Tier II COLA.*—Cancel the 1.2 percent COLA anticipated for Tier II benefits, beginning with checks payable in January of 1987.

—*Disability Benefits.*—Extend Federal/State unemployment insurance to rail industry employees to reduce disability benefits for some beneficiaries. Also, disability reviews would be instituted for disabled rail employees, similar to those for Social Security disability beneficiaries.

—*Unemployment Insurance.*—Eliminate the Railroad Unemployment Insurance System and turn unemployment coverage over to the States.

Administration

None.

Funding

The President's request would increase revenues by $0.1 billion for fiscal 1987 by:

—*Windfall Tax.*—Impose a tax on current rail employees to fund 25 percent of Windfall benefits. At this time, general revenues fund the entire program.

GRAMM-RUDMAN SEQUESTRATION

Benefits

Sequestration would result in a reduction of $47 million from railroad retirement benefits in fiscal 1987:

—*Tier I.*—Gramm-Rudman exempts Tier I (Social Security equivalent) benefit payments from the automatic cuts of sequestration. Therefore, no decrease in payments would result from fiscal 1987 sequestration, and beneficiaries would receive an anticipated 3.7 percent COLA on January 1, 1987 adding $18 to the basic benefit.

—*Tier II.*—The Gramm-Rudman law limits the sequestration of Tier II benefit funds to cancellation of the COLA increase. The anticipated 1 percent COLA for this program has been cancelled for 1986 and would again be subject to sequestration, reducing fiscal 1987 outlays by $16 million. The anticipated 1987 increase would add $2 per month to the basic benefit.

—*Windfall Benefits.*—Which arise from dual coverage under Social Security and Railroad Retirement are not specially protected from cuts under Gramm-Rudman, and would be subject to across-the-board percentage reductions if sequestration is triggered. Assuming a reduction of 8.4 percent in October, these windfall outlays would fall by $31 million and beneficiaries would receive $4 less per month. This is not a COLA cancellation—with the exception of the 1986 sequestration, these benefits have remained essentially constant since their inception in 1974.

Administration

If an 8.4 percent sequestration should occur in October, the Railroad Retirement Board's administrative budget of $56 million will be cut by nearly $5 million. In fiscal 1986, the Railroad Retirement Board's administrative budget was cut by 4.3 percent. An additional sequester could seriously impair the Board's ability to process claims and provide other services to railroad retirees.

Comparison

The President's budget request includes proposals to change the structure of railroad retirement benefits, lowering the rate of some COLA's and reducing some disability benefits. Additionally, the President would cancel the anticipated 1987 COLA for Tier II beneficiaries. The President proposes further deficit reducing measures in the railroad retirement system through increased taxes on current rail employers and employees.

Under sequestration there would be no change in the structure of benefits, however Tier II beneficiaries would lose their anticipated COLA for 1987 and Windfall beneficiaries would actually lose 8.4 percent of that portion of their monthly check attributable to windfall benefits.

PENSION BENEFITS GUARANTY CORPORATION

The Program

The Pension Benefits Guaranty Corporation (PBGC), a wholly owned Government corporation operating under the Department of Labor, provides financial insurance for pension programs. The PBGC administers programs of mandatory termination insurance to prevent loss of pension benefits under covered private, defined benefit pension plans if plans terminate or if multiemployer plans are unable to pay benefits. Terminated plans are taken over by the Corporation. The Corporation assumes control of their assets, administers them in a trust fund held in a private bank, and takes responsibility for paying benefits. The Corporation also provides repayable assistance to insolvent multiemployer plans when necessary to pay benefits and to forestall termination and subsequent Corporation responsibility to pay benefits.

All benefits paid through PBGC's insurance program are funded exclusively through employer-paid premiums. The recently enacted Consolidated Omnibus Budget Reconciliation Act of 1985 raised premiums from $2.60 to $8.10 per employee per year.

The President's Proposed Budget

The President's 1987 budget request included the premium increase and several structural changes for the PBGC, passed as part of the Reconciliation Act.

Gramm-Rudman Sequestration

Gramm-Rudman specifically exempts all insurance benefits from automatic sequestration. Although all benefits are exempted, sequestration is still able to cut funds from administrative expenses

of the program. Under fiscal 1986 automatic reductions, the PBGS lost $1.4 million from its operating budget. An 8.4 percent reduction in fiscal 1987 would cut an additional $3 million from the program's operating budget.

Under the terms of the Gramm-Rudman law, premiums already increased by the Reconciliation Act would not be effected by sequestration, nor would the process result in any additional structural changes in the PBGC.

Comparison

The President's budget proposals for the PBGC include only measures passed as part of the Reconciliation Act, which no further deficit-reducing efforts expected for fiscal 1986. Sequestration, while not providing for any changes in the program, would cut a portion of the funds used to administer the insurance benefits.

FOOD STAMPS

The Program

Congress designed the Food Stamp program to alleviate hunger and malnutrition among low income persons. Eligible households receive monthly allotments of stamps, based on income and household size, to finance food purchases. Benefits are based upon the Thrifty Food Plan, a standard currently set at $268 per month for a single person. A household is eligible for food stamps to the extent that 30 percent of household income falls below the applicable Thrifty Food Plan level. The Plan is adjusted upward annually for changes in the cost-of-living.

Food Stamp benefits are funded entirely from the Federal Government's general revenues, although administrative costs are shared by the States and the Federal Government. During fiscal year 1987, the program will provide over 35 million people (an average of 19.5 persons monthly) with Food Stamp assistance. If Congress appropriates current levels of funding for fiscal year 1987, outlays for the Food Stamp program will total $12.2 million. Eighteen percent of eligible households contain persons age 60 or older. According to the Census Bureau, the average monthly food stamp benefit of a person over age 65 is $44.

The President's Proposed Budget

The President's budget request for fiscal 1987 allots $11.5 billion for the Food Stamp program, a reduction of $300 million from the presequester 1986 appropriation of $11.8 billion. The President would achieve these reductions through changes in eligibility guidelines:

—*Cancel Expansions.*—Repeal expansions authorized under the recently enacted Food Security Act of 1985, which increases asset limitation, and earned income, dependent care, and shelter deductions as of May 1, 1986, helping more people to qualify for Food Stamp assistance.

—*Coordination of Benefits.*—Eliminate some overlaps of benefits between the Food Stamp program and assistance received

under the Low Income Home Energy Assistance Program and the Job Training Partnership Act.

—*Work Requirements.*—Modify the employment and training program authorized last December by requiring an increase in the number of registrant participations. The President would require 25 percent participation in 1987, 50 percent in 1988, and 75 percent in 1989. The President would also add a requirement of universal job search upon application for benefits.

The Congressional Budget Office estimates that these proposals could save the Federal Government as much as $0.2 billion in fiscal 1987, but estimates are tentative because of uncertainty about how certain aspects of the proposals would be implemented.

Administration

The President requests a change in the ways in which States are reimbursed with the Federal portion of administrative expenses:

—*Matching Rates.*—Raise matching rates awarded to States in an effort to induce computerization and anti-fraud activities.

The Congressional Budget Office predicts that these proposed sanctions could not be collected until 1990, and therefore would have no deficit-reducing effects in fiscal 1987. It is unclear at this point how these administrative changes would effect the efficiency of the program. The Administration projects no drop in service, but if efficiency is lowered, all beneficiaries would be effected.

GRAMM-RUDMAN SEQUESTRATION

Benefits

Under the Gramm-Rudman Act, Food Stamp benefits are exempt from automatic cuts. If sequestration were to occur in October, there would be no reduction of benefits to eligible households, and no changes in eligibility requirements.

Administration

The $1.0 billion used to reimburse States for their administrative expenses are not sequesterable under Gramm-Rudman. The portion of the Food Stamp program's administrative budget used to print coupon books and cover other Federal costs of administering the program is not specifically exempted from sequestration, and this $62 million is subject to across-the-board reduction. Assuming an 8.4 percent sequestration of these administrative funds, the program would lose $5 million in 1987.

COMPARISON

The President would cut the Food Stamp program budget by as much as $300 million for fiscal 1987, whereas sequestration would take only $5 million. The President's budget request for fiscal 1987 would restrict eligibility for Food Stamps, removing many elderly and others from benefit rolls. The President would not, however, decrease the amount of monthly benefits received by eligible households. In contrast, Gramm-Rudman exempts Food Stamp benefits

from automatic cuts and there would be no reduction of benefits or eligibility if sequestration were to go into effect in October.

The President would reduce administrative expenditures of the program through regulations on State matching rates designed to encourage computerization and anti-fraud activities on the part of States. These reductions could strain State's ability to provide current levels of administrative service for the program. Sequestration would not reduce any funds used to match State administrative expenses, but only cut into that portion of the program's funds used to administer it on a Federal level. Therefore, the public can expect little drop in service under sequestration.

FOOD PROGRAMS

The Programs

The Department of Agriculture (USDA) administers two feeding programs which benefit senior citizens. The Nutrition Program for the Elderly, a part of USDA's Food Donations Programs, is authorized under the Older Americans Act to help meet the nutritional needs of the elderly. This program works with the Department of Health and Human Services to provide commodities and cash to senior centers and other locations where congregate meals are served. The program offsets the cost of these meals at an average of over $.50 per meal. A total of $137 million was appropriated for 1986, to help serve over 225 million meals. The recently passed Consolidated Omnibus Budget Reconciliation Act of 1985 raised this authorization to $144 milion for fiscal 1986.

The Elderly Feeding Pilot Project (EFPP) is a small, but important test program under the larger Commodity Supplemental Food Program (CSFP). EFPP provides direct distribution of USDA surplus commodities to low-income persons 60 years of age and older at centers in three different cities. For fiscal 1986, the program was appropriated $3 million to provide food to about 19,000 participants. EFPP is financed through the CSFP, and some funds are provided to the local centers through the Temporary Emergency Food Assistance Program (TEFAP). TEFAP provides funds to States to be used to transport, store and distribute these Commodity Credit Corporation-donated foods for needy individuals.

The President's Proposed Budget

The President's proposed budget would:

—*Food Donations Program.*—Fund this program at pre-1986 Reconciliation levels, $132 million.

—*FEFAP.*—Request an end to funding for State administrative cost reimbursement for this program. The Administration assumes continuation of CCC commodity distributions through fiscal 1987, and it is only the administrative costs which would no longer be funded. It is unclear what effect this would have on elderly beneficiaries.

—*CSFP.*—Request funding of $38.6 million, a level equal to 1986 funding. The Administration assumes this will allow for the same participation level and that elderly beneficiaries would not be effected.

GRAMM-RUDMAN SEQUESTRATION

The Nutrition Program for the Elderly is subject to the full domestic percentage reduction under Gramm-Rudman sequestration. Assuming an 8.4 percent across-the-board cut in October, the program would lose $11 million. This would result in a reduction in the per meal reimbursement that States receive and possibly a reduction in the number of meals that will be provided unless another source fills this gap.

The EFPP, as a part of the CSFP, may be exempted for automatic cuts by the Gramm-Rudman Act. In fiscal 1986, these funds were created as part of the WIC (Women, Infants and Children) food supplements program. However, in his 1987 budget request the President separated these two accounts. It is unclear whether Congress intended CSFP to be exempt. Regardless of the way in which the program is treated, administrative funds are definitely subject to sequestration under Gramm-Rudman. An 8.4 percent reduction of these funds would remove $2 million from the program, jeopardizing efficient delivery of services.

Additionally, TEFAP's $50 million adminstrative budget would be cut by $4.2 million. These reductions could inhibit distribution of commodities to all beneficiaries, including the elderly.

COMPARISON

The President's request makes no cuts in benefits under any of the food programs benefiting the elderly, but does take away all funds formerly granted to States to administer distributions of food supplements under the TEFAP program. In contrast, sequestration would take an automatic reduction in the Nutrition Program for the Elderly, the TEFAP program, and possibly in the CSFP program. Any reductions in nutritions programs will result in fewer meals for food supplements being made available to the elderly.

LOW-INCOME ENERGY ASSISTANCE PROGRAM

THE PROGRAM

Begun in 1980, the Low Income Home Energy Assistance Program (LIHEAP) funds block grants to States to be used for assisting low-income households with their heating and cooling bills, energy-related emergency assistance, and weatherization. States have the option of distributing the funds to families, fuel vendors, or public housing operators. The program serves 7 million households per year, and of those, approximately 40 percent have at least one member 65 years of age or older. Congress appropriated $2.1 billion in budget to LIHEAP for fiscal year 1985 and fiscal 1986. Sequestration reduced the 1986 appropriation by $0.9 billion on March 1.

THE PRESIDENT'S PROPOSED BUDGET

For fiscal 1987 the President requests the same level of funding for LIHEAP as appropriated in previous years—$2.1 billion in budget authority each fiscal year through 1991. The Congressional Budget Office projects falling energy prices in the near future, and

therefore finds that this level would produce an increase in the deficit of $0.2 billion in fiscal year 1987. Lower fuel prices should allow this program to serve a greater number of households at this level of funding.

Gramm-Rudman Sequestration

Gramm-Rudman subjects the LIHEAP program to full across-the-board cuts when sequestration goes into effect. In March, sequestration took 4.3 percent from the program. This resulted in percentage reductions to States varying from 11.7 percent to 0. These variations result from statutory guidelines which place floors on the amounts of grants certain States may receive. A sequestration of 8.4 percent in October would take $160 million from the program. Cuts will be applied by varying degrees to each State unless Congress acts to change the allocations formula.

Comparison

The President's 1987 budget request asks for funding the LIHEAP program at the current level. The expected drop in oil prices should result in expanded services at this level. In contrast, sequestration would cut an estimated 8.4 percent from program funds. Lowered funds may not adversely effect the elderly to a large degree because of the drop in oil prices which would allow expanded services at any funding level. Additionally, the elderly are a priority group to receive LIHEAP services and may not feel program cutbacks as much as other households.

Chapter 3.—Housing

HOUSING AND URBAN DEVELOPMENT

The Programs

The Department of Housing and Urban Development (HUD) administers five housing programs of benefit to the elderly. Section 202 Housing is the best known HUD program for older Americans, providing direct loans to nonprofit organizations which build and manage housing projects designed specifically for low income elderly and handicapped persons. About 90 percent of those living in 202 housing are elderly in addition to those handicapped who are elderly. The Section 8 housing assistance payments program is used in conjuction with Section 202 housing.

The Congregate Housing Services program is a Federal program designed to provide meals and other congregate services to elderly and handicapped persons. This program was begun in 1980 to test whether contracting directly with local public housing agencies and 202 projects to supply congregate services is more effective than alternative Health and Human Services programs. Congregate Housing Services was appropriated $2.7 million in fiscal 1986, with approximately 90 percent of these funds going to elderly projects.

The most important of the HUD low-income housing programs is Public and Indian Housing. Today, over 1.2 million public housing units provide housing for 3.5 million people. Residents must meet low income guidelines to be eligible for this type of housing. Approximately 43 percent of the public housing units are occupied by the elderly. The elderly make up about 6.5 percent of those living in Indian housing.

Community Development Block Grants provide a major source of funds for cities to conduct a wide range of community development activities designed to help low- and moderate-income households. Elderly residents benefit directly for a variety of CDBG projects. Of the $3.4 billion made available to States and communities in fiscal 1984, about $13.6 million was budgeted by communities specifically for assistance to senior centers. A large portion of the 36 percent of all CDBG moneys that were used for housing rehabilitation activities ($970 million) benefited the elderly. Other activities that benefit senior citizens under this program are: public housing rehabilitation, public and social services, improvements in neighborhood facilities, and removal of architectural barriers.

Subsidized Housing Program, which include the Section 8 programs, are of particular importance to low- and moderate-income elderly. The Section 8 program was created in 1974 to give rental subsidies to housholds with incomes too low to obtain decent housing in the private market. Over 40 percent of all Section 8 units are occupied by older persons.

The President's Proposed Budget

Fiscal 1986 Recision

The President's fiscal 1987 budget request includes proposals for recisions of various 1986 funds. From the HUD programs affecting the elderly, the President would take:

—*CDBG.*—Rescind $500 million of fiscal 1986 budget authority. This would cancel many CDBG projects which are to begin in 1986, with completion in later years.

Fiscal 1987 Proposals

The President requests measures which would lower the deficit by $2.1 billion in fiscal 1987:

—*Section 202.*—No funding would be provided for the construction of new housing for the elderly and handicapped. The President would replace these with some of the proposed housing vouchers. Current appropriations would allow for 11,000 new units.

—*Public Housing.*—Eliminate new construction and reduce public housing operating subsidies. Continue modernization efforts at reduced levels, funding these efforts with grants, not the long-term loans now used.

—*CDBG.*—Reduce outlays to account for projects cancelled by proposed fiscal 1986 recisions, and make further program cutbacks.

—*Section 8.*—Limit the number of new assisted units to 50,000 per year. Current appropriations would allow for 82,000 new units.

—*Vouchers.*—Replace traditional 15- to 20-year rental assistance contracts with a system of 5-year vouchers.

Gramm-Rudman Sequestration

Gramm-Rudman does not allow any special protection from sequestration for any HUD programs, which are scheduled to spend $16.6 billion in fiscal 1987. All unobligated funds of HUD programs will be subject to 1987 reductions of approximately 8.4 percent if Congress fails to enact alternatively budget measures before the October deadline. Senior citizens will feel the results of this percentage cut in each program in the form of decreased availability of housing units and fewer resources to repair or improve them.

As with all unprotected programs, HUD outlays, unobligated budget authority and direct loan limitations will be reduced. Because of the long-term nature of construction contracts, a cut in budget authority today means that fewer housing projects will be undertaken, and thus fewer units will be available in future years. Automatic reductions in October, on top of March sequestration, could cripple the ability of HUD to meet the housing needs of the future.

Comparison

The President's fiscal 1987 budget request presents a plan which would fundamentally alter the nature of Federal housing programs. His proposal would eliminate construction of various types

of housing units, curtail badly-needed modernization efforts and end the important Section 202 housing program for the elderly. The President would replace many HUD programs, as well as housing programs now administered by the Farmers Home Administration with a system of vouchers to be used to supplement payments to private landlords. The voucher concept has gained some support in recent years, however the number of vouchers requested by the President for fiscal 1987 is inadequate to meet current needs. Cancelling program funds today would be dangerous, particularly in light of uncertainty surrounding the effectiveness of the voucher system.

Future housing programs would be decreased substantially by a sequestration in October. Although 8.4 percent cuts would not eliminate or structurally alter any current housing program, the reductions would limit HUD's ability to meet the housing needs of the present and would severely cut back on the housing begun in 1987 to be completed in future years.

FARMERS HOME ADMINISTRATION

The Programs

The Farmers Home Administration (FmHA) provides loans and grants to residents of rural areas. Many of the FmHA's programs deal directly with the agricultural industry, however, several involve rural housing. The elderly benefit from three FmHA housing programs.

The Section 502 program provides rural housing loans to low-income persons who will reside in rural areas and do not own safe, sanitary, or adequate housing. The loans may be used to buy, build or improve modest housing. In 1985, the FmHA made 40,800 Section 502 loans totaling $1.8 billion. Current year figures are not available, but in fiscal year 1984, 596 loans in the amount of $26 million were made to older Americans.

The Section 504 program makes rural loans of up to $7,500 available to very low-income households who own housing in rural areas. The elderly do participate in this program, but data is not available defining the extent. However, Section 504 rural housing grants are designed to help very low-income homeowners 62 years of age and older who do not qualify for conventional loans. In fiscal 1986, the FmHA will make 4,230 Section 504 grants obligating $15 million.

The Section 515 rural rental housing program provides loans for the construction of rental or cooperative housing for persons with low or moderate incomes and for persons age 62 or older in rural areas. In 1985, the FmHA made nearly 25,700 Section 515 loans in the amount of $903 million. Twenty-five percent of these loans were used for construction of elderly projects.

The President's Proposed Budget

President Reagan's fiscal 1987 budget request proposes elimination of FmHA housing programs:

—*Construction.*—End new construction of FmHA new housing, although construction already begun would be completed.

—*Vouchers.*—Replace Section 502 and section 515 loans with some of the 50,000 vouchers to be made available to the Department of Housing and Urban Development (HUD) for subsidized housing programs.

Gramm-Rudman Sequestration

Under Gramm-Rudman, each FmHA program is subject to sequestration of the across-the-board percentage amount, an estimated 8.4 percent for fiscal 1987. This reduction would limit the ability of FmHA programs to function at curent levels, but would not eliminate any programs or provide for the implementation of joint urban-rural voucher system.

Comparison

The President's budget request includes a plan to eliminate FmHA housing programs subsidy and loan programs, replacing them with some of the 50,000 housing vouchers to be issued by HUD. The number of vouchers proposed is inadequate to meet the current services levels of benefits now provided by the FmHA and HUD. Additionally, the system has not been proven effective. The voucher system may be workable in the long run, however, the President has not provided the plan sufficient resources to maintain current services levels. Additionally, combining urban and rural housing programs could endanger the future of rural housing in the current fierce competition for limited Governmental resources.

A sequestration for fiscal year 1987 would be detrimental to rural housing programs, but would not interfere with their basic structure. Automatic cuts in unobligated budget authority and outlays in October mean that fewer housing units and fewer loans will be available in future years.

HOME WEATHERIZATION

The Program

Spurred by rising fuel costs in the early 1970's, Congress enacted the Department of Energy Weatherization program in 1976 to provide persons 125 percent below the poverty line with assistance in improving the energy efficiency of their homes. In fiscal 1986 $256 million is available for energy conservation grants, and of that total, $188 million will go to State and local governments to provide weatherization assistance.

Similar to the Low Income Energy Assistance program, discussed above, this program gives priority to elderly and handicapped households. Over 728,000 elderly dwellings have been weatherized under this program since its inception.

The President's Proposed Budget

The President's budget request for fiscal 1987 includes a request to terminate the weatherization program. The program has a slow spendout rate, and generally spends only 30 percent of its budget authority in the year appropriated. Although the President re-

quests zero dollars in budget authority for 1987, the program would continue spending previously appropriated funds during that year and possibly future years. The Administration takes the position that responsibility for providing these services rests with the States, and expects funds made available to States through settlement of petroleum pricing violation cases to pay for State weatherization programs.

Gramm-Rudman Sequestration

Gramm-Rudman subjects the Department of Energy's Weatherization program to across-the-board percentage reductions when sequestration goes into effect. An 8.4 percent reduction in this program for fiscal year 1987 would reduce outlays by $16 million. In 1986, the program implemented a 4.3 percent sequester by reducing each State's grant by that percentage. States are responsible for implementing reductions. An 8.4 percent reduction this year would be implemented by reducing each State's grant by that percentage. Because of the priority given to senior households in this program, the elderly may not feel the effects of sequestration with the same intensity as other households.

Comparison

President Reagan's request would eliminate the Department of Energy's Weatherization program, while sequestration would reduce programs funds by only 8.4 percent. Although it is true that recoveries from the oil overpricing cases could contribute substantially to home weatherization, those prices are not unlimited and the program should not be eliminated merely on that basis. There is a strong possibility that if States were forced to fund weatherization activities on their own, these programs would lose out in the increasing competition for limited governmental resources.

Under an October sequestration, the Weatherization program would lose 8.4 percent of its funding for the year, but the basic structure of the program would be left intact.

Chapter 4.—Services

OLDER AMERICANS ACT PROGRAMS

The Programs

Older Americans Act (OAA) programs receive funding through the Human Development Services office of the Department of Health and Human Services (HHS). These programs include transportation, outreach, congregate meals, adult day care, meals-on-wheels, shopping escorts, telephone reassurance, and long-term care ombudsman programs. Seniors depend on these and other OAA programs for a variety of essential services, many of which help maintain them in their homes and avoid unnecessary institutionalization. An estimated 9.3 million seniors will participate in OAA programs in 1987, and of those, 4.8 million will be low income participants. Congress appropriated a total of $1.16 billion for all OAA programs (including some discussed at other places in this paper) in fiscal 1986. March 1st sequestration reduced these various programs by 4.3 percent.

The President's Proposed Budget

Fiscal 1986 Recision

As part of his 1987 budget request, President Reagan proposes a recision of $11.4 million from:

—*Education and Training.*—Cuts would come from programs which provide education and training to persons working with and for senior citizens, develop more efficient and effective programs, and disseminate information on the range of aging programs available.

No direct services would be cut by this recision, but it would adversely effect the delivery of better services to more seniors in the future.

Fiscal 1987 Proposals

For fiscal 1987, the President's budget requests:

—*Nutrition and Support.*—Provide Title III nutrition and support services with budget authority of $669 million, an amount equal to that appropriated in fiscal 1985 and 1986. (Sequestration reduced the appropriation to $641 million for 1986.) HHS predicts increases in the number of meals served with these funds because of expected administrative efficiencies and increases involuntary contributions from recipients able to pay for them.

—*Indian Tribe Grants.*—Provide Title VI grants to Indian Tribes, funding at fiscal 1985 and 1986 appropriations levels.

—*Education and Training.*—In line with the proposed 1986 recision, the funding for aging training, research and discretionary projects would be kept at $12 million, half the amount appropriated in fiscal 1985 and 1986 for these programs.

Gramm-Rudman Sequestration

Gramm-Rudman does not provide protection for any OAA programs from sequestration, and these services will suffer an 8.4 percent reduction in October if Congress does not implement alternative budget plans. Fiscal 1986 sequestration reduced funding for congregate meals by $14.5 million, and also took $3 million from home delivered meals. At current services levels, OAA nutrition, support, training, research, and Indian tribe programs will receive $708 million in fiscal 1987. An 8.4 reduction of that amount will mean a loss of $60 million to these programs.

Comparison

The President's budget requests funding most OAA programs at 1985 levels. This situation would be preferable to a cut of 8.4 percent under automatic sequestration. However, the President would rescind 1986 funds and drastically reduce funds for an important aspect of OAA programs—training and education. These aspects of the program look to improving the efficiency and effectiveness of aging programs.

On the other hand, Gramm-Rudman sequestration would take an equal percentage cut from each part of OAA programs. On top of a 4.3 percent sequestration, 8.4 percent cuts would limit the ability of HHS to provide current levels of service to a growing population of seniors.

TRANSPORTATION

The Programs

Under Section 16(b)(2) of the Urban Transportation Act, the Urban Mass Transportation Administration (UMTA) provides assistance to States for the transportation of the elderly and handicapped. States apportion the money to a variety of private nonprofit organizations who use it to purchase equipment such as vans and small buses with wheelchair lifts. Over 3,500 organizations benefit from these funds, with approximately 1,000 receiving aid in any 1 year. Roughly 3.8 million elderly and handicapped passengers are served by the program each year. Congress appropriated $30.5 million to the program for the Section 16(b)(2) program. March 1 sequestration reduced this amount by $1.3 million.

In addition, two other UMTA programs provide grants for public transportation services highly utilized by senior citizens. The Section 18 program provides funds for public transportation services in rural areas. While an average of 12 percent of persons living in these areas are elderly, it is estimated that as much as 50 percent of the ridership in some of the over 1,000 local programs is elderly. After March sequestration, $59 million will be spent by this program in fiscal 1986. As a counterpart to Section 18, the Section 9 program provides grants for local public transportation systems op-

erating in urban areas. The percentage of elderly riders varies, but is generally much higher than the ratio of elderly to the population as a whole in a given urban area. After sequestration, the Section 18 program will be able to spend $1.9 billion in fiscal 1986.

The President's Proposed Budget

Proposed 1986 Recision

In his 1987 budget request, the President has asked for a recision of $0.5 billion from the funds which provide for Sections 9 and 18 and other programs. Nearly two-thirds of the recisions would be taken from portions of the programs earmarked for construction or expansion of local transit systems.

Proposed 1987 Budget

For 1987, the President requests cutting the $3 billion budget of UMTA to approximately $1 billion. Under this plan, most UMTA programs will lose substantial funding. The Section 18 program would be reduced by $27 million to $32 million. The Section 9 program would receive only $0.5 billion, a nearly 75 percent reduction from the 1986 post-sequester level of $1.9 billion.

The major exception to the President's proposed reductions is in the Section 16(b)(2) program. The President would increase funding for this program in fiscal 1987 by $4 million over 1986 post-sequester levels.

Gramm-Rudman Sequestration

Gramm-Rudman does not provide any exemption from sequestration automatic cuts for either UMTA discretionary grants or formula grants. In the absence of alternative budget legislation, these funds will suffer 8.4 percent reductions in October for fiscal year 1987. Sequestration would take approximately $2.4 million from the Section 16(b)(2) program for elderly and handicapped transportation, $5 million from the Section 18 rural public transportation program, and $160 million from the Section 9 urban public transportation program. These cuts will result in reductions of local transportation services, which will also be taking cuts in other Federal sources such as Older Americans Act funds.

Comparison

Although the President proposes funding the Section 16(b)(2) program to provide elderly and handicapped transportation at significantly increased levels in fiscal 1987, seniors would be hurt by his overall plan to reduce UMTA funding by two-thirds. Deep proposed cuts to both urban and rural transportation systems will decrease the mobility of elderly and lessen their ability to remain independent. Under sequestration, elderly would lose some access to transportation services as each program benefiting them will lose an equal percentage of funds.

LEGAL SERVICES

The Program

The Legal Services Corporation (LSC), a nonprofit corporation, funds local legal aid projects. In turn, the local projects provide free legal services in civil matters to persons meeting poverty guidelines. Approximately 13 percent of all Legal Services clients are senior citizens, who receive legal assistance in areas such as government benefits, consumer fraud, guardianships, involuntary commitments to an institution, and probate matters.

LSC will receive $301 million in Federal outlays for fiscal 1986. Congress originally appropriated $312 million, but sequestration reduced this amount on March 1. If the program continues at current services levels, outlays will total $304 million in fiscal 1987, and reach $353 million by fiscal 1991. Local legal aid offices receive approximately 88 percent of their funding from the Federal Government. Although most comes from LSC grants, offices receive some funds from sources such as Older Americans Act funds, Community Services Block Grants, Revenue Sharing, and Title XX moneys. The balance of funds come from State and local governments and private sources.

The President's Proposed Budget

The President's request would eliminate LSC in 1987:

—*Termination.*—Provide only $38 million in fiscal 1987 to allow competion of responsibilities in existing cases and pay for closeout.

—*Substitutions.*—Expect private attorneys and bar associations to provide legal services to the poor, and if States need to supplement these activities, they could do so with Social Services Block Grants. (The President requests funding SSBG's at their current services level for 1987, although he would expand their program area to include areas formerly covered by LSC and Community Services Block Grants.)

Gramm-Rudman Sequestration

All Federal sources of funding for local legal aid projects are subject to across-the-board sequestration under Gramm-Rudman. If Federal sources are cut by 8.4 percent in fiscal 1987, the program would lose $26 million. In March, fiscal 1986 sequestration cut 4.3 percent from LSC funding, and the corporation passed this along byu reducing each grant to local service providers by 4.3 percent. A fiscal 1987 sequester would be passed along in the same manner.

It is difficult to estimate the number of senior citizens, if any, who will be denied legal help because of these cuts for several reasons. Additional funds from State or local sources or from interest on Lawyers Trust Accounts could offset Federal cuts. Also, a shift in the use of LSC funds could occur. For example, funds could be moved from training or elsewhere to keep service provision constant.

COMPARISON

President Reagan requests elimination of the LSC system, with replacement to come from the private sector and State resources. It is unclear that a completely pro bono system would effectively replace the services now provided by LSC grantees, and poor and elderly persons who rely on these services may be denied legal counsel.

Seqestration would cut an estimated 8.4 percent from the LSC budget for fiscal 1987. This reduction would limit local legal aid projects from delivering current levels of service, but would leave the program intact.

OLDER AMERICAN VOLUNTEERS

THE PROGRAMS

ACTION, an independent agency established in 1971, administers and coordinates a variety of volunteer programs designed to reduce poverty, help the physically and mentally disabled, and serve local communities in other ways. Thousands of senior citizens participate in and benefit from these volunteer programs. ACTION programs were appropriated $164 million for fiscal 1986, with over $105 million to go to the three Older Americans Volunteer Programs. These amounts were reduced by 4.3 percent under March 1 sequestration.

A. RETIRED SENIOR VOLUNTEER PROGRAM

The Retired Senior Volunteer Program (RSVP) was originated in 1969 under the Older Americans Act. RSVP is designed to provide volunteer opportunities for persons age 60 and older in areas such as youth counseling, literacy enhancement, long-term care, crime prevention, refugee assistance, and housing rehabilitation. Each project is locally planned, operated, and controlled. Volunteers receive no hourly stipend, but are reimbursed for out-of-pocket expenses incurred as a result of volunteer activities. In fiscal 1986 RSVP was appropriated funding adequate to provide for 378,000 volunteers. This number was reduced by 2,000 when sequestration cut 4.3 percent of the program's funds in March.

B. FOSTER GRANDPARENTS PROGRAM

The Foster Grandparents Program (FGP) is designed to provide part time volunteer opportunities for low-income persons age 60 years and over to assist them in providing supportive services to children with physical, mental, emotional or social disabilities. Foster Grandparents are placed with nonprofit sponsoring agencies such as schools, hospitals, day care centers, and institutions for handicapped children. Volunteers serve 20 hours per week and provide care on a one-to-one basis to three or four children.

Volunteers receive an hourly stipend, transportation assistance, an annual physical examination, insurance benefits, and meals while serving as volunteers. Volunteers must meet income guidelines to qualify for this program and benefits are not taxed. In fiscal 1986, Congress appropriated sufficient funds to FGP to sup-

port 17,285 compensated volunteers. This number was not reduced when sequestration cut 4.3 percent of the program's funds in March. Service levels were maintained with carryover balances from 1985 and reductions in overhead costs.

C. SENIOR COMPANION PROGRAM

The Senior Companion Program (SCP) was instituted in 1973 to provide part time volunteer opportunities for low-income seniors in the same manner as the FGP. Volunteers must meet the same income qualifications and receive the same benefits as FGP volunteers. Senior Companions assist homebound, chronically disabled older persons to maintain independent living arrangements in their own places of residence. Volunteers also provide services to institutionalized older persons. In fiscal 1985 SCP was appropriated funds sufficient to support 5,365 compensated volunteers. This level was not reduced by the sequestration of 4.3 percent of funds in March. Service levels remained constant because of the use of carryover balances from fiscal 1985 and administrative efficiencies.

The President's Proposed Budget

For Older American Volunteer Programs, the President's budget requests budget authority equal to the 1986 pre-sequester level of $104 million. At this level the President projects the following:

—*RSVP.*—365,000 RSVP volunteers could be funded at this level, a number equal to the fiscal 1985 level.

—*FGP.*—18,775 FGP compensated volunteers could be funded at this level, a decrease of 225 from the fiscal 1985 level.

—*SCP.*—6,200 SCP compensated volunteers could be funded at this level, an increase of 300 over the fiscal 1985 level.

Gramm-Rudman Sequestration

ACTION is subject to automatic funding reductions if deficit reduction measures fail to hit their targets and Gramm-Rudman sequestration goes into effect. For fiscal year 1987, an 8.4 percent reduction would result in cuts to ACTION programs of $12.5 million. The Older American Volunteer Programs would suffer a loss of $8 million under such a percentage reduction. Sequestration in 1987 would undoubtedly reduce the number of volunteers in these programs, as there would be no carryover balances from which to draw, and fewer areas in which administrative cutbacks could be made.

Comparison

The President's requested levels of funding are higher than those which would result under an 8.4 percent sequester. There is even some gain predicted in participation levels under the President's request. In contrast, sequestration of funds would only result in lower participation.

However, it is difficult to predict the effect of lowered Federal spending on these programs, which vary in per volunteer expenses. Nearly 30 percent of the total funds that support Older American Volunteer programs are non-ACTION sources and if these sources

remained constant reductions in the number of volunteers funded might be less.

COMMUNITY SERVICES EMPLOYMENT FOR OLDER AMERICANS

The Program

Community Services Employment for Older Americans program was established by Title V of the Older Americans Act and is administered by the Department of Labor's Employment and Training Administration. This program provides part-time work experience to unemployed, low-income persons age 55 and over through contracts with seven national service organizations and the U.S. Forest Service and through grants to States. Fiscal 1986 appropriations originally provided $323 million for this program. These funds were reduced by 4.3 percent, $14 million, by sequestration on March 1, and the number of volunteers was cut by 2,740.

The President's Proposed Budget

The President requests funding for this program at 1986 pre-sequester levels, and expects some 63,800 job opportunties to be provided older workers in 1987.

Gramm-Rudman Sequestration

Gramm-Rudman does not exempt Title V employment from automatic cuts under sequestration. Assuming an across-the-board domestic reduction of 8.4 percent for fiscal 1987, this program will lose a total of $26 million in outlay funds. The percentage reduction would also be applied to the number of positions funded.

Comparison

The President's request provides current levels of funding for the Community Services Employment for Older American program. In contrast, Gramm-Rudman sequestration would cut $26 million from the program, reducing the number of positions funded by the program.

JOB TRAINING PARTNERSHIP ACT

The Program

The Job Training and Partnership Act (JTPA) authorizes a wide range of training activities to prepare disadvantaged persons for unsubsidized employment. Title V of the Older Americans Act ensures that older workers will benefit from part-time public service employment. Two percent of the participants in Title II–A of this program during the period July 1, 1984, through June 30, 1985 were 55 years of age or older (12,221). Three percent of the Title II–A JTPA funds of each State's allotment are setaside to be made available for the training and placement of older individuals in employment opportunities with private business concerns. The set aside for the 1985–86 program year is $57 million.

Title III of JTPA authorizes a State-administered dislocated worker program which provides training and related employment assistance. In the program year 1984–85, 7 percent or about 8,300 of those individuals who went through the program were 55 years of age or older. The total fiscal 1986 appropriation for JTPA programs is over $3 billion.

The President's Proposed Budget

The President's fiscal 1987 budget request include plans to reorganize the JTPA as of fiscal 1986, reducing the agency significantly. In the two programs which benefit the elderly, this would result in an increase in fiscal 1987 outlays by $33 million:

—*Title II-A.*—Cut budget authority for the program in fiscal 1987, although because of the unique July to June funding of the program, outlays would not drop below current services levels until later years. By 1991, the President's plan would put outlays over $400 million below current services projection for that year.

—*Title III.*—Allow outlays to rise $34 million above projected outlays because of the deletion of other programs under the reorganization plan. In years after 1987, however, the President's proposal would severely limit outlays in this program, and by 1991 this plan would result in outlays $220 million below current services projections for that year.

Gramm-Rudman Sequestration

JTPA programs are subject to the across-the-board cuts under Gramm-Rudman sequestration. For fiscal year 1987, a reduction of 8.4 percent would result in a loss of $26 million to all JTPA programs, and those benefiting older workers would take their share of these cuts. The Title II–A program would lose $151 million, with approximately $3 million of those cuts being made in the 2 percent of the programs which benefits senior citizens. Title III programs would lose nearly $15 million, with approximately 3 percent of this reduction coming from funds to serve senior citizen participants in the program.

Comparison

Although outlays for the two JTPA programs of some benefit to senior citizens would rise under the President's budget request for fiscal 1987, the accompanying plan to reorganize and reduce the size of the JTPA makes the future of elderly programs uncertain. In contrast, Gramm-Rudman sequestration would take 8.4 percent of funds away from these programs in fiscal 1987, but leave their structure intact.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The Program

The Equal Employment Opportunity Commission (EEOC) enforces various laws which prohibit employment discrimination based on factors such as race, religion, or sex. The EEOC enforces

the Age Discrimination in Employment Act, an anti-discrimination law of particular importance to senior citizens. This act prohibits discrimination against workers age 40 through 70. In 1985, older Americans filed 18,659 claims involving age discrimination and equal pay with the Commission, and increases are expected in the future. The EEOC will spend approximatley $157 million this year to carry out its many enforcement activities.

The President's Proposed Budget

The President's budget requests funding the EEOC at approximately the same level as before fiscal 1986 sequestration. The request would put fiscal 1987 outlays at $167 million. The Administration expects this program to handle over 21,000 age and equal pay complaints in fiscal 1987, an increase over prior years.

Gramm-Rudman Sequestration

The Gramm-Rudman Act does not provide for any special protection of the EEOC's budget, and the program is subject to the across-the-board reductions imposed by sequestration. If an 8.4 percent reduction were to be applied in October for fiscal year 1987, the program would lose $13 million. Before fiscal 1986 sequestration cut 4.3 percent of the EEOC's funds, the agency had been planning on expanding staff levels to meet demands for service. Instead, March 1 brought a partial hiring freeze and reductions in supplies, travel and training. Furloughs and RIF's were not used. An additional cut of 8.4 percent in October could seriously impair the ability of the EEOC to function, as further staff reductions could not be absorbed without drops in service.

Comparison

The President requests funding the EEOC at 1986 pre-sequester levels, while sequestration would reduce the programs funds by $13 million in fiscal 1987.

SOCIAL SERVICES BLOCK GRANTS

The Program

States receive Social Services Block Grants (SSBG) to enable them to provide services to low-income persons, including recipients of AFDC, SSI, and Medicaid Program funds. Services include programs designed to: prevent, reduce, or eliminate dependency on Federal assistance; assist low-income persons to achieve or maintain self-sufficiency; prevent neglect and abuse; prevent or reduce inappropriate institutional care; and secure admission or referral to institutional care when other forms of care are not appropriate. States receive grants based on population size. In fiscal 1986, Congress appropriated $2.7 billion to the program, but sequestration reduced that amount by $116 million.

State governments spend an estimated 15 percent of SSBG funds on the elderly. This percentage has declined from over 21 percent in 1981. A major reason for this decline is that in the recent competition for government resources, elderly programs were pushed

aside in favor of programs such as homemaker training, daycare services and child abuse prevention.

The President's Proposed Budget

The President's request proposes:

—*Funding.*—Fund SSBG at the current services level of $2.7 billion for fiscal 1987.

—*Programming.*—Change the responsibilities of this program to fill the gap left by the elimination of the Legal Services Corporation and the Community Development Block Grant program. This will mean that these funds will not provide the same level of service as the three programs combined in fiscal 1986.

Gramm-Rudman Sequestration

SSBG program is subject to the across-the-board reductions under the sequestration process when the Gramm-Rudman deficit targets are not met in any given year. For fiscal 1987, a projected 8.4 percent reduction in SSBG funding would result in a $226 million cut in program funds.

Comparison

Although the President's request would fund the SSBG program at 1986 pre-sequester levels, his budget would increase the types of activities carried out by the program. SSBG funds would be expected to cover gaps in services left by the elimination of the Legal Services Corporation and the Community Services Block Grant program. In contrast, sequestration would cut an equal percentage from each of the programs, but leave all three functioning. Under either scenario, senior citizens will experience a drop in services provided to them, as reductions follow previous cuts from March sequestration.

COMMUNITY SERVICES BLOCK GRANTS

The Programs

Community Services Block Grants (CSBG) are provided to States for funding services and activities designed to reduce poverty and promote community development. Some CSBG funds are used to provide services to senior citizens such as job training and referral for the elderly, home owner counseling, low-income housing construction, transportation, senior centers, energy and weatherization assistance, and food and shelter. Data is not available, however, as to what percentage of the $335 million fiscal 1986 appropriation is used to provide services to elderly beneficiaries.

The President's Proposed Budget

The President requests elimination of the CSBG program, and asks that it not be given an appropriation for fiscal 1987. The Administration considers the program duplicative and would use SSBG funds to address the needs now met with CSBG.

GRAMM-RUDMAN SEQUESTRATION

Gramm-Rudman gives no special protection for CSBG funds when the automatic sequestration process is activated. If an 8.4 percent sequestration takes effect this October for fiscal 1987, the program will lose $31 million, reducing each State's ability to provide the variety of community services now offered.

COMPARISON

The President's budget request would eliminate the CSBG program, an important program on which many communities, and many senior citizens, depend. The request assumes that the SSBG program will fill gaps in services caused by the cancellation, however does not provide increased funds to SSBG's to cover the additional duties. In contrast, sequestration would take only 8.4 percent of CSBG funds, leaving the program viable, although reduced.

APPENDIX

SENATE BUDGET COMMITTEE PROPOSAL

On March 24, 1986, the Senate Budget Committee reported the first concurrent budget resolution for fiscal 1987. The proposal, offered by Chairman Domenici and Senator Chiles, passed the committee with broad bipartisan support. The resolution, S. Con. Res. 120 was developed as a middle ground among budget alternatives of sequestration and President Reagan's fiscal year 1987 budget request. The sponsors sought compromise between the President's insistence on large defense increases and refusal to consider tax increases, the indiscriminate cuts of Gramm-Rudman which would take significant cuts in both domestic and defense spending with no revenue increases, and the views of some that domestic programs must be spared at whatever cost. The Senate began consideration of S. Con. Res. 120, on April 21. Late on May 1, the Senate adopted a modified version of the resolution.

The Senate Budget Resolution is more favorable to programs benefiting the elderly than the President's fiscal year 1987 budget request. The resolution limits defense expenditures to $282 billion in fiscal year 1987 (budget authority would be $301 billion for the year). In contrast, the President requested a 3 percent real growth increase in fiscal 1987 defense spending, resulting in defense outlays of $297 billion. A Gramm-Rudman sequestration of $38 billion would reduce 1987 defense outlays to $265 billion.

S. Con. Res. 120 also calls for greater revenue increases than the President's budget contains. Along with measures in the President's budget that would raise $5.9 billion, the bill adds provisions raising $7.3 billion in revenues. Sequestration does not result in revenue increases.

The resolution provides significantly higher funding to many domestic programs than was called for in the President's budget request. Lowered defense spending, higher revenues, and reestimates of inflation mandated cost-of-living adjustments combined to allow the resolution to fund 42 domestic programs that the President would have eliminated, and maintain funding for others which the President would have significantly reduced.

S. Con. Res. 120 provides for full COLA's for all indexed programs in 1987, including those which lost COLA's to sequestration in 1986. The adjustment assumed by the resolution coincides with recent inflation estimates of 2 percent. A previous inflation estimate of 3.7 percent was used in the President's budget request and Congressional Budget Office baselines on which sequestration estimates in this report were based.

The programs discussed previously in this report would be frozen at 1986 post-sequester levels except in the following respects:

HEALTH PROGRAMS

MEDICARE

Unlike the President's budget request, S. Con. Res. 120 would not increase beneficiary out-of-pocket expenses. The resolution assumes $1.6 billion savings in fiscal 1987 due to the recently passed reconciliation bill. An additional $0.9 billion in savings would be achieved through freezing administrative costs of the program, and adopting many of the President's provider payment proposals.

MEDICAID

S. Con. Res. 120 proposes savings of $260 billion by adopting some Presidential proposals to reduce matching payments for State administrative costs and to require second surgical opinions for some procedures. An additional $59 million in savings is assumed for fiscal 1987 because of the passage of the Consolidated Omnibus Budget Reconciliation Act of 1985, Public Law 99-272.

VETERANS HEALTH

S. Con. Res. 120 assumes measures passed as part of the Reconciliation Act, which targets medical care to veterans with service-connected-disabilities and reduces the number of non-service-connected-disabled veterans who receive care. The bill allows full inflationary increases for veterans medical care in fiscal 1987.

NATIONAL INSTITUTES OF HEALTH

S. Con. Res. 120 allows funding for 6,000 new and competing grants in fiscal 1987, the level funded in fiscal 1986. The Reagan budget request would limit the number of grants to 5,500. In addition to the general funding for the NIH, the resolution specifies an extra $63 million be added provided specifically for research into Alzheimer disease and AIDS.

INCOME SECURITY PROGRAMS

SOCIAL SECURITY

S. Con. Res. 120 allows payment of full Social Security benefits, including COLA's, for fiscal 1987. The same result would occur under either the President's budget request or Gramm-Rudman sequestration. S. Con. Res. 120 would freeze the administrative portion of the program at 1986 post-sequester levels and would implement the President's proposal to speed up State and local deposit of FICA payroll deductions.

BLACK LUNG

Incorporating a proposal from the President's budget request, S. Con. Res. 120 would increase fiscal 1987 revenues $152 million by increasing the tax on coal producers which partially fund this program. The resolution allows for COLA's for all Black Lung beneficiaries.

CIVIL SERVICE AND MILITARY RETIREMENT

S. Con. Res. 120 allows full COLA increases for Federal civil service and military retirees. These retirees would not receive 1987 COLA's under Gramm-Rudman sequestration nor the President's proposed budget.

RAILROAD RETIREMENT

S. Con. Res. 120 assumes unspecified savings of $0.1 billion in the railroad retirement program for fiscal 1987. These savings might be achieved through adoption of some of the President's proposals such as increasing rail industry payroll deductions or taxing benefits above certain levels. The resolution does allow for payment of full COLA's to Tier I and Tier II beneficiaries.

PENSION BENEFITS GUARANTY CORPORATION

S. Con. Res. 120 assumes the savings included as part of the Reconciliation Act, which raises private pension insurance premiums and makes structural changes to the PBGC.

FOOD PROGRAMS

Under S. Con. Res. 120, the Commodity Supplemental Food Program, a portion of which supplements senior center meals, would be funded at a level above the 1986 freeze.

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM

Although S. Con. Res. 120 adopts the President's request to fund LIHEAP through oil overcharge cases, it does not tie benefits to damage payments. The resolution authorizes the Appropriations Committee to fund benefits independently, to guard against the danger of delays and inadequacy of damage payments.

Housing Programs

HOUSING AND URBAN DEVELOPMENT

S. Con. Res. 120 would fund Section 202 Elderly and Handicapped Housing at 1986 post-sequester levels. The President's plan would terminate this program. The resolution would reduce Section 8 subsidized housing units 25 percent below the current baseline level, at a fiscal 1987 savings of $1.6 billion. This level would provide for the addition of about 71,000 units in each future year. For the public housing program, S. Con. Res. 120 assumes a 1-year freeze on modernization efforts and the President's proposed financing reforms to save $241 million in fiscal 1987. S. Con. Res. 120 assumes termination of Community Development Block Grant Section 108 loans, according to the plan set out in the Reconciliation Act.

FARMERS HOME ADMINISTRATION

S. Con. Res. 120 would continue rural rental housing assistance payments, although assuming some changes in the program and limitations in the FmHA's loan programs contained in the 1986

Reconciliation Act. In contrast, the President would terminate all FmHA housing assistance programs and use decreased HUD funds to provide rural housing assistance.

HOME WEATHERIZATION

Although S. Con. Res. 120 adopts the President's request to fund the Department of Energy's Home Weatherization program through oil overcharge cases, it does not tie benefits to damage payments. The resolution authorizes the Appropriations Committee to fund benefits independently, to guard against the danger of delays and inadequacy of damage payments.

SOCIAL SERVICES PROGRAMS

OLDER AMERICANS ACT

S. Con. Res. 120 restores full 1986 pre-sequester funding to Older Americans Act programs for fiscal year 1987. The President's budget request had contained recisions of funds in some areas, but full funding in others. Sequestration would cut an equal amount from all Older Americans Act funds.

TRANSPORTATION

In fiscal 1987, S. Con. Res. 120 would reduce urban mass transit operating assistance by 20 percent below fiscal 1986 levels. In contrast, the President's budget proposal would eliminate the various types of grants and create new block grants for States, granting them discretion on how to spend the money, a discretion which would allow possible elimination of elderly programs.

JOB TRAINING PARTNERSHIP ACT

S. Con. Res. 120 would increase funding for all Job Partnership Training Act programs by $344 million over the 1986 post-sequester levels. A portion of these funds would be used in JPTA programs for those 55 and older. The President's budget request asked for cuts to this program below the 1986 post-sequester level.

SOCIAL SERVICES BLOCK GRANTS

Both S. Con. Res. 120 and the President would fund this program at fiscal 1986 levels. A difference in service would result from the two plans, however, because the President expects SSBG's to provide services formerly given by Community Services Block Grants and the Legal Services Corporation.

COMMUNITY SERVICES BLOCK GRANTS

S. Con. Res. 120 would reduce this program by 10 percent below fiscal 1986 levels, producing savings of $24 million in fiscal 1987. The President has proposed elimination of this program and would use Social Services Block Grants to fill any service gaps created by such a termination.

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